Todd F. Silbergeld
Director
Federal Regulatory

SBC Communications Inc.
1401 I Street, N.W.
Suite 1100
Washington, D.C. 20005
Phone 202 326-8888
Fax 202 408-4806

October 20, 1997

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Re: *In the Matter of Telecommunications Carriers' Use of Customer Proprietary Network Information and Other Customer Information, CC Docket No. 96-115*

Dear Mr. Caton:

Pursuant to the request of the Common Carrier Bureau staff, I attach a photocopy of a national survey conducted by Louis Harris and Associates, Inc. on behalf of MasterCard International Inc. and Visa U.S.A. Inc. concerning credit reporting and federal credit reporting reform. Among the study's major findings is the conclusion that nearly two-thirds of Americans asked believe that it is acceptable for subsidiaries of the same corporate family to share customer information to make offers of services or products.

Should you have any questions concerning the foregoing, do not hesitate to contact me. In accordance with the Commission's rules, an original and two copies of this letter are submitted herewith.

Very truly yours,

Todd F. Silbergeld

Attachment

cc: Ms. Dorothy Attwood
Ms. Raelynn Tibayan Remy

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Study No. 934016

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

CONSUMERS AND CREDIT REPORTING 1994

Conducted for:
MasterCard International Incorporated
and Visa U.S.A. Inc.

Fieldwork:
January, 1994

Project Director:
Robert Spanski, Vice President

Consultant:
Dr. Alan F. Westin,
Professor of Public Law and Government,
Columbia University

Louis Harris and Associates, Inc.
630 Fifth Avenue
New York, NY 10111
(212) 698-9600

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INTRODUCTION

This is a study of public attitudes and perceptions in the context of proposed reforms to the Fair Credit Reporting Act. The survey, which forms the basis of the study, was designed to measure the awareness of the FCRA, public opinion about alternatives under consideration in Congress in amending the FCRA and the acceptance of credit checks and direct marketing which uses shared information about individuals.

Study Design

The survey is based on interviews with a representative nationwide sample of 1,001 adults, eighteen years old and over. The interviews were conducted by telephone in January, 1994. The resulting data were weighted to reflect current population census data. The methodology is described in detail in Appendix A. A copy of the annotated questionnaire can be found in Appendix B.

Acknowledgements

The Harris firm would like to express their gratitude to Dr. Alan Westin, Ph.D. for his unique knowledge and understanding of privacy issues and invaluable assistance in framing the questions. An essay by Professor Westin appears separate from the analysis by Louis Harris and Associates, who are solely responsible for the data collection and tabulation.

SURVEY HIGHLIGHTS

This survey of a representative cross-section of adults examines their views as consumers on issues of credit reporting and the Fair Credit Reporting Act.

Some of the major findings of the survey are:

1. SUBSTANTIAL NUMBERS OF AMERICANS USE FINANCIAL SERVICES.

- Large majorities of Americans use financial services such as savings and checking accounts. Half of the public uses financial services for investment purposes, such as stocks, bonds, money market accounts or other investments. A significant number of adults -- at least one-third -- have a home, co-op or condo mortgage or an auto loan.

- Three-fourths of all adults have at least one credit card. The average number of cards held by an individual is five.

- Nearly three in five adults have applied for -- or been considered for -- credit in the past two years.

2. THE PUBLIC OVERWHELMINGLY SUPPORTS THE NEED FOR CREDIT CHECKS.

- Nearly all Americans (92%) say a creditor or a credit card company should have access to the credit records of an individual borrowing money or applying for a credit card.

3. MOST ADULTS SEE NEGATIVE EFFECTS LIKELY IF ACCURATE AND RELEVANT CREDIT REPORTS WERE NOT AVAILABLE TO CREDITORS.

- Vast majorities of all Americans say that the following effects would be likely to happen, were reports of a consumer's history of paying bills, not available from a credit bureau to a creditor:

- the cost of credit would increase (89%);
- businesses would ask for loans to be secured (85%);
- businesses would cut back on extending credit (83%), and;
- it would take several weeks rather than several days to get a loan approved (83%).

4. SIGNIFICANT NUMBERS OF PEOPLE ARE INFORMED ABOUT CREDIT-RELATED ISSUES.

- Half of all Americans are aware of consumer issues involving credit reports or operations of credit bureaus, with nearly one in five adults reporting they have read or heard a great deal about the issues.

- One-fourth of all adults are knowledgeable about the proposed legislation to change federal rules on credit reporting.

5. THE PUBLIC TENDS TO FAVOR FEDERAL REGULATION OVER ADDITIONAL STATE LAWS BY A WIDE MARGIN.

- Most adults say one uniform federal law (as compared with states enacting their own regulation) would:
  - produce more accurate credit reports (67%)
  - produce less confusion (76%)
  - be a more efficient way for consumers to get credit (68%).

6. MOST AMERICANS WELCOME MARKETING EFFORTS BY CORPORATE AFFILIATES.

- Nearly two-thirds of all adults say offers from a corporate affiliate using customer information are acceptable.

- Other financial offers -- involving corporate affiliates -- are acceptable to substantial majorities of the public:

- credit card offers to customers with a checking account (77%)
- credit card offers to customers with a mortgage (71%)
- mutual fund offers to customers with a checking account or loan (71%)
- insurance offers to customers with a loan (70%).

7. CONSUMER CONFIDENCE IS GROWING IN CURRENT LAWS AND BUSINESS PRACTICES PROTECTING PRIVACY RIGHTS.

- Half of all Americans (51%) say their privacy rights are being adequately protected by law and business practice, compared to 37% in 1991.

CONSUMERS, PRIVACY, AND THE CREDIT PROCESS

An Interpretive Essay by Dr. Alan F. Westin

Background

Several major findings from earlier Harris surveys on the public's attitudes toward privacy and consumer issues help to frame the findings of this new, January 1994 poll:

- In terms of general privacy concerns, 83% of respondents said in 1993 they were concerned about threats to their personal privacy in America today, with 57% saying they were "very concerned."[1]
- When asked in 1991 whether their "privacy rights as a consumer in credit reporting are adequately protected today by law and business practice" 58% said they did not believe this was true, and only 37% felt they were adequately protected.[2]
- When asked in 1993 how important it would be to them, when choosing which businesses to patronize, whether a company "has adopted strong privacy protection policies for handling consumer information and informs you about them," large majorities of the public said this would be "very important" to them. For example, 72% said it would be very important to them when choosing a bank; 71% a health insurance company; 71% a hospital or clinics; 67% a credit card company; and 66% a life insurance company.[3]

These findings reflect considerable public discussion since 1989 of the credit reporting system in the United States:

- the mass media have run a steady stream of stories involving accuracy, correction of errors, secondary uses of credit report data, control over improper access or use, and other consumer issues involved in the operations of credit reporting agencies over the past five years;

- improved policies and practices have been adopted by the credit reporting industry;

- state and federal regulatory agencies and state attorneys general offices have increased enforcement of consumer rights under existing law; and

• Congressional committees have held hearings in 1990-93 and developed legislative proposals (currently pending) to update the 1970 federal Fair Credit Reporting Act in light of new technological applications and Information uses, and to define new fair information practices for the national U.S. credit reporting system,.

It is against this background that the 1994 Harris survey for MasterCard and Visa was conducted. The full results are presented in the Harris report. My essay will add to that detailed presentation some observations on key findings based on 15 years of working with the Harris organization on privacy surveys, as their academic advisor. It will also use the experiences and attitudes reported by respondents -- such as whether they have credit or charge cards and whether they have applied or been considered for credit in the past two years -- to explore underlying sources of respondent attitudes on policy issues.

High Approval of Credit Reports

Any balanced judgement about the reasonableness and social utility of personal-information collection by business (or government) must take into account how valuable the product of such activity is to the individual involved, and to the larger society. If the uses are not highly valued, there is little justification for requiring disclosure or for trying to work out acceptable fair information practices safeguards.

The 1994 Harris survey confirmed earlier (1990) findings that the public overwhelmingly accepts the relevance and reasonableness of requiring credit checks for consumer lending and credit-card issuance. In 1994, 92% of the public feel that "when people want to borrow money, the company giving them credit should be able to check on their credit records." And, a similar 92% believe that "when people apply for a credit card, the company issuing the credit card should be able to check on their credit and credit card records." Such high acceptance of the relevance of credit reports for granting loans and issuing credit cards represents broad approval of the credit-reporting process for consumer credit.

The 1994 Harris survey also probed the public's feelings about whether the credit reporting system had direct benefit to consumers The question asked: "If businesses extending credit could not obtain accurate and relevant national credit bureau reports about a consumer's record of paying bills, how likely do you think it would be that...."

1. Many businesses would cut back on extending credit, to only the best customers?" 83% of the public believe this would happen (15% did not, with 2% not sure).
2. "The cost of credit would go up, to cover increases in bad debts," 89% of the public believe this would happen (10% disagree, with 1% not sure).
3. "It would probably take several weeks rather than several days to get a loan approved." 83% saw this as likely (15% disagreed, with 3% not sure).
4. "Many business would ask for the loan to be secured." 85% felt this would happen (11% disagreed and 3% were not sure)

These answers show more than 8 out of every 10 Americans seeing the current credit reporting system as beneficial to consumers -- facilitating the availability of consumer credit, keeping credit costs down, speeding up credit decisions, and opening up credit opportunities to many who could not offer security for loans. In addition, these views are held by heavy majorities of all demographic groups covered in Harris surveys -- blacks, Hispanics, and whites; young, middle-aged, and older persons; females and males; all across the educational spectrum; at all income levels; in cities, suburbs, and rural areas; and by conservatives, moderates, and liberals.

Increased Confidence About Consumer Rights

We noted earlier that 58% of the public in 1991 did not believe their privacy rights in credit reporting were adequately protected by law or business practice. When this question was repeated on the 1994 Harris survey, a major shift was recorded. Fifty-one percent of the public now believes that their consumer privacy rights are "adequately protected today by law or business practice,: up 14% from the 37% who expressed that view in 1991. Viewed from the opposite angle, the 46% of the public who do not believe their rights are protected in 1994 has gone down 12% from the 58% that took that view in 1991.

Since there has been no significant change in federal legislation on credit reporting since 1991, this shift in judgement would seem to rest on perceptions by some respondents of changing conditions across these three years -- that industry practices as to privacy protection are improving, or that federal and state agencies administering existing statutes have been doing a better job of issuing rules and enforcing consumer rights, or -- probably -- that a segment of the public (14%) sees both trends taking place, and have changed their judgement accordingly.

Is Business Paying More Attention?

Some indication that respondents have recognizing improved business practices by the credit reporting industry may be indicated by the answer to a broad statement about business privacy practices put to respondents for their agreement or disagreement. Fifty-eight percent of the American public in January, 1994 agreed they have "noticed that businesses handling personal information are paying more attention to privacy policies these days." About a third (36%) disagreed, and 6% said they weren't sure.

Younger respondents (18-29) agree that business is paying more attention at 68%, compared to respondents 30-49 (at 60%) and respondents 50-over at a much lower at 49%. Blacks at 62% and Hispanics at 61% see business practices improving slightly more than whites, at 58%.
Others higher than the public are those with less than high school education (66%) and high school graduates (62%); lower income groups ($15,000 and under, at 64% and $15,000-$35,000 at 63%); conservatives (61%); and those who have applied or been considered for credit over the past two years (slightly higher at 60%).

Voluntary Is Better

In another question, Harris asked respondents to agree or disagree with the following statement: "If companies and industry associations adopt good voluntary privacy policies, that would be better than enacting government regulations, in this country."
Two-thirds of the public – exactly 66% – agreed with this statement; 31% disagreed; and 2% were not sure. Interestingly, this view was shared very closely by conservatives (68%), moderates (67%) and liberals (65%). Stronger agreement was registered by 18-29 year old (71%); women (70%); those with less than a high school education (73%); and those with $15-35,000 income (73%). Those who have applied or been considered for credit in the past two years preferred

voluntary policies at 68% compared to 60% for those who had not applied or been considered.

Consumers and the FCRA

A majority of the public – 53% – say they have heard about "consumer issues involving the use of credit reports and operations of credit bureaus." However, only one American in four – 25% – say they have "heard anything about proposed legislation in Congress to change federal rules on credit reporting." (The question spelled out for respondents what the proposed legislation would cover, so that people might recognize the effort by the issues involved.) The demographic-group patterns on knowledge about FCRA reform followed standard "knowledge of public affairs" division: knowledge is highest among the better educated, higher income, and middle-aged Americans (30-49) and lowest among the lowest educated, lowest income, and the youngest and oldest respondents.

FCRA and Federal Preemption

Whether an area of public policy should be governed by federal rules or be subject to varying state laws is an issue as old as the Republic, and as current as the computer age. At the rational level, federal rules seem wise when problems or activities are national in scope, involve multi-state transactions, when citizens believe they should be equally treated throughout the U.S., etc. State discretion is well-founded when novel social policies are to be experimented with locally before attempting national rules, when distinct regional or state cultural identities are involved, or when the federal rules adopted seem highly limited and state variations would create few hardships.

A central issue in Fair Credit Reporting Act reform has been whether to set uniform federal rules for the three national consumer reporting companies and the credit grantors they serve or to allow state credit-reporting laws to set different regulations. To test public views, the survey described this choice and asked respondents which approach they thought would be most likely to produce various consumer benefits presented to them.*

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* The question read: "American consumers obtain all kinds of loans, including home mortgages, credit cards, and retail credit from creditors who lend to consumers located throughout the nation. This system relies on credit buraru reports that provide credit grantors with information on whether individual consumers pay their

- The first effect tested was "more accurate credit reports." Sixty-seven percent of the public felt that having one federal law would produce more accurate credit reports, while only 28% see allowing additional state laws as likely to have that effect.

- The second effect tested was "less confusion for consumers." Three out of four respondents – 76% – felt that federal rules would have that effect, to 21% choosing state laws.

- The third effect tested was "a more efficient way for consumers to get credit." Sixty-eight percent of the public felt that federal rules will be more likely to have this effect than varying state laws (chosen by 28%).

Demographically, every standard group (gender, race, age, income, education, etc.) recorded a majority in favor of federal pre-emption. Younger Americans (18-29) and people with higher incomes were even higher than the general public in choosing uniform federal rules as likely to create all three consumer benefits. Especially interesting was the fact that the 56% of Americans who say they have applied for any form of credit in the past two years were much higher in choosing federal rules for the three consumer benefits than the 44% of Americans who have not applied for credit in the past two years.

Information-Sharing and the FCRA

Another important issue in FCRA reform involves the sharing of customer information among affiliates of the same company, for the purpose of offering the customer products or services of other affiliates. When asked about this practice,** 63% of the public felt it acceptable for

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bills and loans on time. Congress is currently considering legislation to update the 1970 federal law on consumer rights in credit reporting. Which approach do you think would be likely to produce (the effect stated) – having one federal law regulating credit reporting with national rules OR allowing various states to pass additional laws with different rules?" The two answers were rotated each time, to avoid any bias in the order of presentation.

** The question read: "Now, I'd like to ask you some questions about offers corporations often make to consumers. For example, one subsidiary or company within a corporate family may want to mail an offer of products or services to "subsidiaries of the same corporate family" to share customer information "to make offers of services or products."

Specifically, 71% of the public say it is acceptable to offer a credit card to customers who have a mortgage with one of the other subsidiaries; 77% to offer a credit card to customers who have a checking account with one of the other subsidiaries; 70% to offer insurance to customers who have a loan with one of the other subsidiaries; and 71% to offer mutual funds to customers who have a checking account or loan with one of the other subsidiaries.

Again strong majorities of all demographic groups supported such inter-company information sharing. Blacks, Hispanics, younger Americans (18-29), middle-aged Americans (30-49), and high-income groups supported such information-sharing at higher levels than the general public.

Comparison of Black respondents with Whites on the specific types of information-sharing among affiliates asked about in the survey showed consistently higher approval of such activity by Blacks. For example, 78% of Black versus 70% of Whites say it is acceptable for one corporate subsidiary to offer a credit card to customers who have a mortgage with another subsidiary of that corporation. 81% of Blacks versus 77% of Whites approve of credit card offers by one subsidiary to customers with checking accounts at another subsidiary. And, 79% of Blacks versus 69% of Whites approve of one corporate subsidiary offering insurance to customers wioth a loan at another subsidiary. It may be that more Black respondents than Whites approve of offers of additional financial services based on positive consumer performance with a related company because of historical problems that Blacks have encountered in obtaining equal access to such products and services.

Attitudes of Credit Users versus Non-Users

As already noted, those who have applied for credit in the past two years (56%) hold stronger

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customers of another subsidiary or company within the same corporate family, because they believe the customer would be interested in those products or services. Before extending the offer, information about the customer is shared with the subsidiary making the new offer. How acceptable is this use of customer information among subsidiaries of the same corporate family to make offers of services or products?

attitudes than non-users on a number of key consumer issues. Who are the users?

- 66% of younger (18-29) and 62% of middle-aged (30-49) respondents, compared to only 42% of those 50-over.

- Two-thirds of the higher educated [those with college education 65% and post-graduate education 66%] compared to 52% of high school graduates and only 32% of those with less than high school education;

- those with higher incomes (78% with $75,000-over, 66% with $50-75,000, and 64% with $35-50,000) compared to 39% of those earning $15,000 or less); and

- 66% of those having credit cards compared to 28% who do not.

The active users of credit are consistently stronger than non-users in believing that it would disadvantage consumers if there were no credit reporting system; that uniform federal rules would serve the three stated consumer interests more than allowing varying state laws; that sharing customer information between affiliates is acceptable; that businesses are paying more attention these days to privacy policies; and that voluntary privacy policies would be a better approach in the U.S. than government regulation.

Useful Input in FCRA debates

The 1994 Harris survey results should be a useful input to the interest groups and media following public and consumer attitudes toward the credit system and credit reporting in the U.S. The data should also be useful to Congressional staffs and legislators, and to state regulators, as discussions take place over how the public feels about various information practices and options in this area.

NOTES

1. Louis Harris & Associates Survey for Privacy & American Business, 1993.
2. The question was first asked on **The Equfax Report on Consumers in the Information Age,** a National Opinion Survey conducted for Equifax Inc. by Louis Harris & Associates and Dr. Alan F. Westin, 1990, with the finding that 51% of the public did not believe their privacy rights were adequately protected. This rose to 58% in 1991, when repeated on the Equifax/Harris Consumer Privacy act study.
3. Louis Harris & Associates Survey for Privacy & American Business, 1993.

CHAPTER 1:

THE PUBLIC'S USE OF FINANCIAL SERVICES

This chapter provides a picture of how many, and which, people use various financial services. It is no surprise to find that most Americans use credit services and that credit use varies by income, race and age.

Use of Financial Services

The great majority of Americans use at least one service provided by a financial institution, such as a bank or credit union. When asked which financial services they use, nearly nine of ten adults (86%) say they have a checking account and three-fourths say they have a savings account. Investments, such as stocks, bonds and money market accounts are owned by half (49%) of the adult population. Thirty-seven percent of adults report they have a home, co-op or condo mortgage. Nearly the same percentage (32%) report that they are currently paying off an automobile loan (Table 1-1).

Q.A14

TABLE 1-1

FINANCIAL SERVICES UTILIZED BY THE PUBLIC

Q. Do you have any of the following financial services or not?

		Yes
Base: 1001		
A Checking Account	%	86
A Savings Account	%	76
Stocks, Bonds, Money Market Accounts, Or Other Investments	%	49
A Home, Co-Op Or Condo Mortgage	%	37
An Auto Loan	%	32

There are some interesting differences between segments of the population when it comes to financial services used. While nearly all (90%) White respondents have a checking account, barely more than half (55%) of African Americans say they have one. Seven out of ten (71%) Hispanics report that they have a checking account.

The differences between various racial or ethnic groups are smaller when it comes to the use of savings accounts. The majority of Americans (76%) have a savings account. The limited range reported by the segments goes from a low of 63% (African Americans) to a high of 78% (Whites). Sixty-eight percent of Hispanics say they use a savings account (Table 1-2).

Q.A14-1, A14-2

TABLE 1-2
CHECKING AND SAVINGS ACCOUNTS BY RACE/ETHNICITY

Q. Do you have any of the following financial services or not...A checking account?

Q. Do you have any of the following financial services or not...A savings account?

		RACE/ETHNICITY		
	Total	White	Black	Hispanic
Base:	1001	892	89	68
	%	%	%	%
Yes, has checking account	86	90	55	71
Yes, has savings account	76	78	63	68

Differences along racial or ethnic lines are also evident when the public is asked about home, co-op or condominium mortgages. Thirty-seven percent of all Whites say they are currently financing a home, as are 34% of all Blacks, but only 18% of Hispanics say they have a mortgage.

Investing in stocks, bonds, money market accounts and other ventures also varies by race and ethnicity. Half of the adults who are White (51%) report taking advantage of these investment opportunities. Barely a third (31%) of African Americans report they use these financial services, and slightly more than one out of four (26%) Hispanics say they own stocks, bonds, money market accounts or other investments (Table 1-3).

Q.A14-3, A14-4

TABLE 1-3
MORTGAGES AND INVESTMENTS BY RACE/ETHNICITY

Q. Do you have any of the following financial services or not...A home, co-op or condo mortgage?

Q. Do you have any of the following financial services or not...Stocks, bonds, money market accounts or other investments?

		RACE/ETHNICITY		
	Total	White	Black	Hispanic
Base:	1001	892	89	68
	%	%	%	%
Yes, has home, co-op or condo mortgage	37	37	34	18
Yes, has stocks, bonds, money market accounts or other investments	49	51	31	26

Credit Card Use

Nearly three out of every four Americans (73%) have at least one credit card. Adults who report higher household incomes are more likely to have credit cards. Almost all (96%) of those who say their incomes are $75,001 and over have credit cards, falling to just under half of those earning $15,000 or less (Table 1-4).

Q.A15

TABLE 1-4
CREDIT OR CHARGE CARD OWNERSHIP

Q. Do you have any credit or charge cards or not?

			1993 HOUSEHOLD INCOME			
	Total	$15000 or less	$15001 to $35000	$35001 to $50000	$50001 to $75000	$75001 and over
Base:	1001	177	300	172	121	106
	%	%	%	%	%	%
Yes, has cards	73	45	74	89	81	$\boxed{96}$

Age and credit card use are also correlated. Sixty percent of all adults aged 18-29 have at least one credit card, well below the percent of all adults. Credit ownership increases with age except among the oldest Americans who report a slight drop off to 75%. An overwhelming majority of adults aged 40-49 (81%) report they have at least one credit or charge card (Table 1-5).

Q.A15

TABLE 1-5
CREDIT OR CHARGE CARD OWNERSHIP BY AGE

Q. Do you have any credit or charge cards or not?

		AGE			
	Total	18-29	30-39	40-49	50 +
Base:	1001	239	251	213	292
	%	%	%	%	%
Yes, has cards	73	60	76	$\boxed{81}$	75

Significant differences can be seen in the use of credit or charge cards by race and ethnicity. A large majority of Whites (75%) report having cards. Reporting less credit use are Blacks; two-thirds (63%) have credit or charge cards. The group with the smallest percent reporting ownership are Hispanics, of whom only half (49%) have at least one card (Table 1-6).

Q.A15

TABLE 1-6
CREDIT OR CHARGE CARD OWNERSHIP BY RACE/ETHNICITY

Q. Do you have any credit or charge cards or not?

		RACE/ETHNICITY		
	Total	White	Black	Hispanic
Base:	1001	892	89	68
	%	%	%	%
Yes, has cards	73	75	63	49